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CENTRAL INTELLIGENCE AGENCY
WASHINGTON, D.C. 20505

S-08307

ER/OER/S-08307-75

28 January 1975

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MEMORANDUM FOR: J. Foster Collins
Deputy Special Assistant to the
Secretary for National Security
Department of the Treasury

SUBJECT : Requested Studies on Nigeria,
Algeria and Ecuador

Attached are the studies of the immediate and longer-run balance of payments positions of Nigeria, Algeria and Ecuador you requested last Friday. These notes are obviously speculative but they represent the best judgment we can presently offer on your request.

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Deputy Director
Economic Research

Attachment:
as stated

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Algeria:

During the next several years, Algeria's foreign exchange expenditures will probably exceed earnings by a considerable margin, causing the country to continue borrowing from suppliers and other international lenders.

Although general trends are discernable, magnitudes are more difficult to predict. Much will depend on what happens in other parts of the world -- the level of oil prices determined by OPEC, the rate of inflation in the industrialized world, and the level of economic activity and employment in Western Europe. Consequently, balance of payments projections are made at constant 1974 prices.

Although prices for Algerian hydrocarbon exports are expected to remain high, volume constraints will limit total receipts. During 1975 technical problems are expected to lower output from Algeria's largest field and past total production levels of about 1.1 million b/d are generally viewed as the maximum that will be achieved at least through 1977. Technical difficulties with LNG facilities limit the enormous potential for natural gas exports during the next few years.

Other exports have stagnated during the last several years and show little promise of rapid improvement. Moreover, wages sent home by Algerians working abroad will be limited at least in the near term by depressed economic conditions in Western Europe.

Meanwhile, Algeria has scheduled massive import hikes to realize plans for rapid industrialization. Predicated on a $14 per barrel price for oil (which has since fallen to $12 and shows no sign of immediate strengthening), the Algerian 1974-77 plan calls for a more than three-fold increase in expenditures over the previous 4-year plan period. In addition, expenditures for petroleum-related facilities not included in the plan are to total many hundreds of millions of dollars. Algerian authorities envisage spending some $20 billion on imports of capital equipment and raw material and industrial inputs to support industrialization. An additional $4 billion will be required for food and consumer goods. Administrative delays and shortages of personnel and some key raw materials will undoubtedly impede plan implementation; but even a 75% realization rate will push expenditures beyond anticipated earnings. Debt service payments will claim a large share of foreign earnings. Scheduled to rise throughout the period, they will abosrb nearly $600 million in 1975 alone.

To finance the gap between anticipated receipts and planned expenditures, Algeria will have to borrow many billions of dollars. Funds are now actively being sought in the form of supplier credits, and increasingly in the form of bank financing through the Eurodollar market.

How much Algeria actually borrows will depend in large part on its success in implementing the development plan. The plan seems overly ambitious, but Algeria's recent track record is good. Although project implementation lagged throughout the period, more than 95% of expenditures planned for 1970-73 were made. The Algerians intend to spend as much of their income and additional borrowed sums as they can obtain and absorb on development. Moreover, they intend to stretch to the limit all of their resources.

Prospects for a major reversal in Algeria's foreign payments position beyond 1977 are uncertain. Algeria's ability to develop and market its huge natural gas reserves will be the principal determinant. Should Algeria be largely successful in implementing development plans, increased proceeds from exports of manufactured goods and diminished import needs will no doubt be offset by large debt service payments. Should many plan projects fail to be implemented, they will probably be carried forward, absorbing future earnings.

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Algeria: Major Balance of Payments Accounts

Million US $

	Actual	Estimated			
	1973	1974	1975	1976	1977
Exports	1,800	4,100	4,600	4,800	5,200
Imports a/	-2,400	-4,000	-6,200	-6,600	-7,450
Services	-130	-140	-150	-160	-170
Workers remittances	280	280	280	290	300
Debt service payments	-260	-460	-570	-660	-830
Medium & long term borrowing	1,300	600	1,540	1,650	2,000
Over all balance	+590	+380	-500	-680	-950

a. Based on planned expenditures.

Nigeria: Prospects for Foreign Exchange Earnings and Expenditures

Nigeria's proved oil reserves amount to about 20 billion barrels, representing 25 years of production at the current rate. Potential reserves are believed to be much larger. In addition, long-term prospects are favorable for export of natural gas, reserves of which are estimated at 40 trillion cubic feet.

Nigerian oil revenues reached $8.6 billion in 1974, up from $2.4 billion in 1973 (see table). In 1980 oil revenues could be more than $11 billion assuming exports grow slowly and prices remain at today's level. In late 1974, however, after years of steadily increasing oil production, Lagos did reduce output -- ostensibly for conservation reasons -- and is now producing at 80% of capacity.

If imports grow at about 15% a year (Nigeria's estimated absorptive capacity), Nigerian reserves -- $5.5 billion at the end of 1974 -- would total $20 billion to $30 billion in 1980. After 1980 financial reserves will probably begin to drop off as public expenditures continue to grow and oil revenues level off. Lagos could reduce its cash reserves prior to 1980 by investing large amounts of capital abroad. Nigeria also has an outlet for its funds in less fortunate neighbors who are pressing for financial support.

Nigerian oil income is not large when related to the needs of its 80 million people. Per capita income of only about $250 places Nigeria among the least developed of countries. Nigeria has the potential over an extended period for a large expansion in investment and in imports. The recently announced Third National Development Plan (FY 1976-FY 1980) calls for investments of $48.6 billion of which $32.4 billion is to come from the public sector. While well within the projected revenues of the government, the projected expenditures appear to be well in excess of the government's implementation capabilities. A scarcity of managerial and technical manpower and inadequate institutions to administer development projects will limit the increase in Nigerian investment for some time. Public sector investment in FY 1975, for example, will probably be less than $2.5 billion.

Nigeria: Estimated Balance of Payments

Billion US $

	1973	1974	1980
Exports of goods and services	3.4	9.5	13.5
Of which: oil revenues	(2.4)	(8.6)	(11.5)
Imports of goods and services	3.5	4.6	10.5
Current account balance	-.1	4.9	3.0
Year end total reserves	.6	5.5	20-30

Ecuador: Balance-of-Payments Situation and Prospects

Oil revenues of about $550 million placed Ecuador's balance of payments in a strong position in 1974. The consequent 34% gain in export earnings more than offset a 27% growth in imports and a large deficit in the services account. The foreign payments position was further strengthened by net capital inflow largely in the form of supplier's credits, and Ecuador accumulated some $300 million in foreign reserves.

Oil revenues should increase to about $850 million in 1975, barring unexpected interruptions to production such as last year's break in the Trans-Andean pipeline. At the same time, imports probably will grow about 20% with increased purchases of consumer and capital goods. A probable rise in capital inflows from multilateral agencies and some private sources to finance expansion of agriculture and the newly emerging industrial sector will further strengthen the payments position.

In subsequent years, unless new oil reserves are soon discovered and developed, petroleum production and exports will continue at present levels, and rising imports will begin to weaken the payments position. Given current prospects for exports, and current rates of growth in imports, Quito may be forced to dig into its foreign reserves by 1977. As in the past, the government probably will react by restricting import growth. Assuming that long-term borrowing from multilateral agencies for industrial expansion can be sustained, import growth probably can be maintained at least at 8%-10% annually during 1977-79. Ecuador does have an alternative to this situation, however. With about 1.8 billion barrels of reserves, production could be increased to about 400,000 b/d. Texaco-Gulf had been planning this expansion until the government decided that conservation was necessary to spread oil income over a longer period of time. This production increase could reduce the necessity for foreign borrowing.

For 1980 and beyond, however, Ecuador likely will be pressed to more drastic measures to keep imports in line with export earnings. Even though oil exploration is continuing, prospects for new finds are slim, and oil production and exports seem likely to slacken. Import growth probably will have to be sharply curtailed, thus slowing economic growth.

Ecuador 1/

	1974	1975	1976	1977	1978	1979
Balance on goods and services	130	90	-93	-200	-243	-400
Trade balance	310	306	146	64	27	-100
Services	-175	-216	-239	-262	-270	-300
Net transfer payments	40	40	40	40	40	40
Balance on current account	170	130	-53	-160	-203	-360
Net medium and long-term capital and errors and ommissions	130	150	150	150	150	150
Payments surplus or deficit	300	380	97	-10	-53	-210
Increase or decrease in foreign reserves (- equals increase)	-300	-380	-97	10	53	210

1. With the present petroleum production levels.

Ecuador 1/

	1974	1975	1976	1977	1978	1979
Balance on goods and services	130	90	407	137	-193	-360
Trade balance	310	306	646	432	167	36
Services	-175	-216	-239	-295	-360	-396
Net transfer payments	40	40	40	40	40	40
Balance on current account	170	130	447	177	-153	-320
Net medium and long-term capital and errors and ommissions	130	150	100	100	100	100
Payments surplus or deficit	300	380	547	277	-53	-220
Increase or decrease in foreign reserves (- equals increase)	-300	-380	-547	-277	53	220

1. With a production level of 400,000 b/d.